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RB

RESTAURANT BUSINESS

MAY 20, 1990
A BILL PUBLICATION

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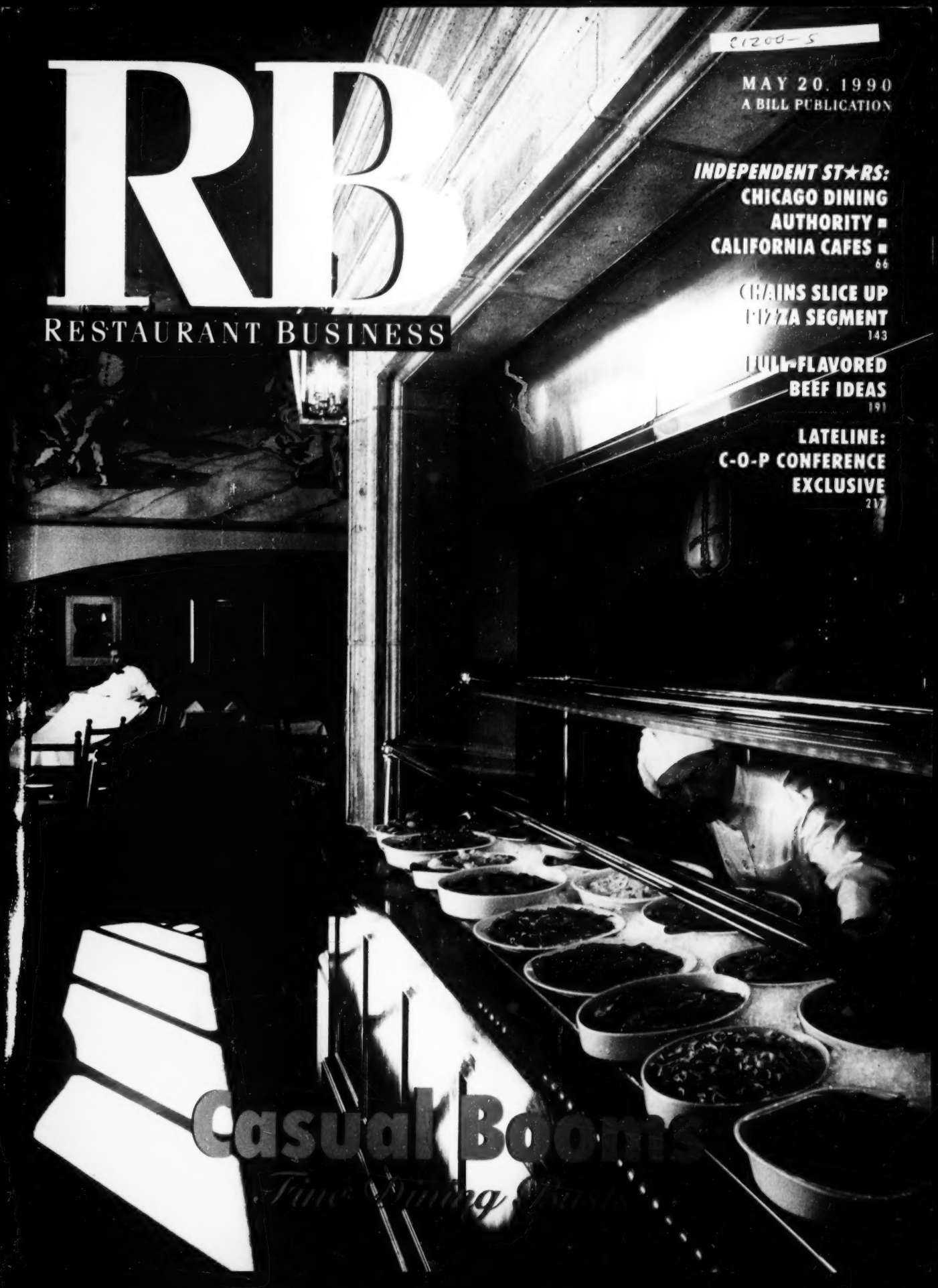
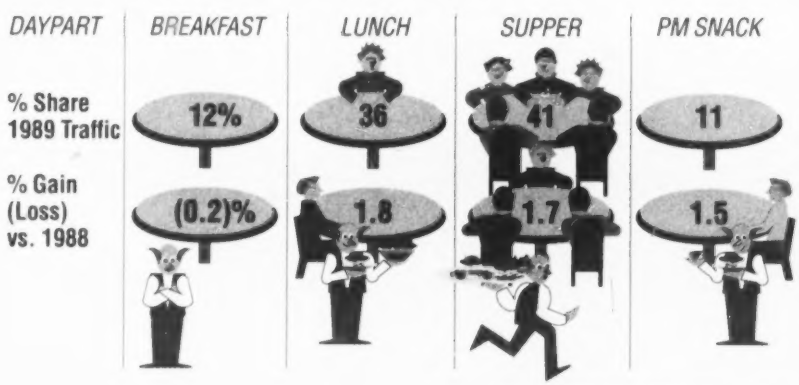


Casual Booms

Fine Dining Busts

BUSINESS BAROMETER

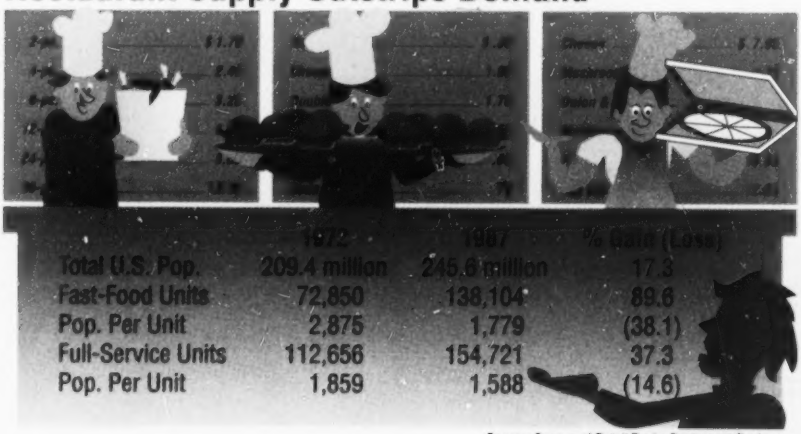
Supper Serves Up Most Traffic



Source: CREST, based on 1989 total industry traffic

Supper continues to serve up more customer traffic than any other daypart. In 1989, supper traffic grew a modest 1.1% in fast food while posting a robust gain of 2.8% in full service. Lunch produced the biggest traffic increase (up 2.4%) for fast-food restaurants, while breakfast served up the biggest traffic gain (up 3.1%) for full-service restaurants.

Restaurant Supply Outstrips Demand



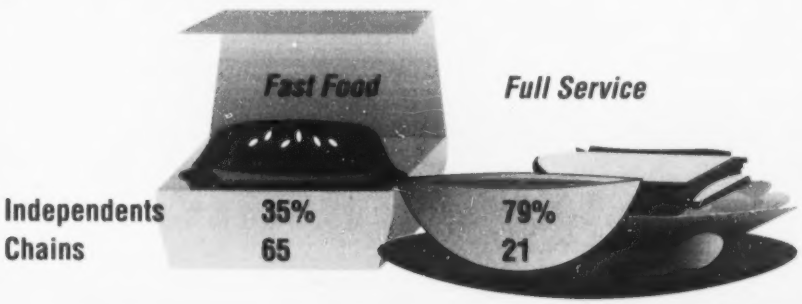
	1972	1987	% Gain (Loss)
Total U.S. Pop.	209.4 million	245.6 million	17.3
Fast-Food Units	72,850	138,104	89.6
Pop. Per Unit	2,875	1,779	(38.1)
Full-Service Units	112,656	154,721	37.3
Pop. Per Unit	1,859	1,588	(14.6)

Source: Census of Retail Trade, Restaurant Business

The explosive rate of fast-food restaurant expansion during the past two decades has led to the current battle of the chains for market share. Between 1972 and 1987, the growth of fast-food units doubled that of full-service units and grew to more than five times the growth rate of the U.S. population.

Independents Stake Out Full Service

(Share of 1989 Restaurant Traffic)



Source: CREST, NPD Research

Today's independent operators have staked out the full-service sector as their exclusive domain. The independents dominate market share in full service by a 79% margin; in contrast, chains control fast food by only a 65% margin. CREST also reports that 1989 was the first year that full service outpaced fast food in sales and traffic real growth.

Charts by Peter K. Niceberg

RESTAURANT BUSINESS

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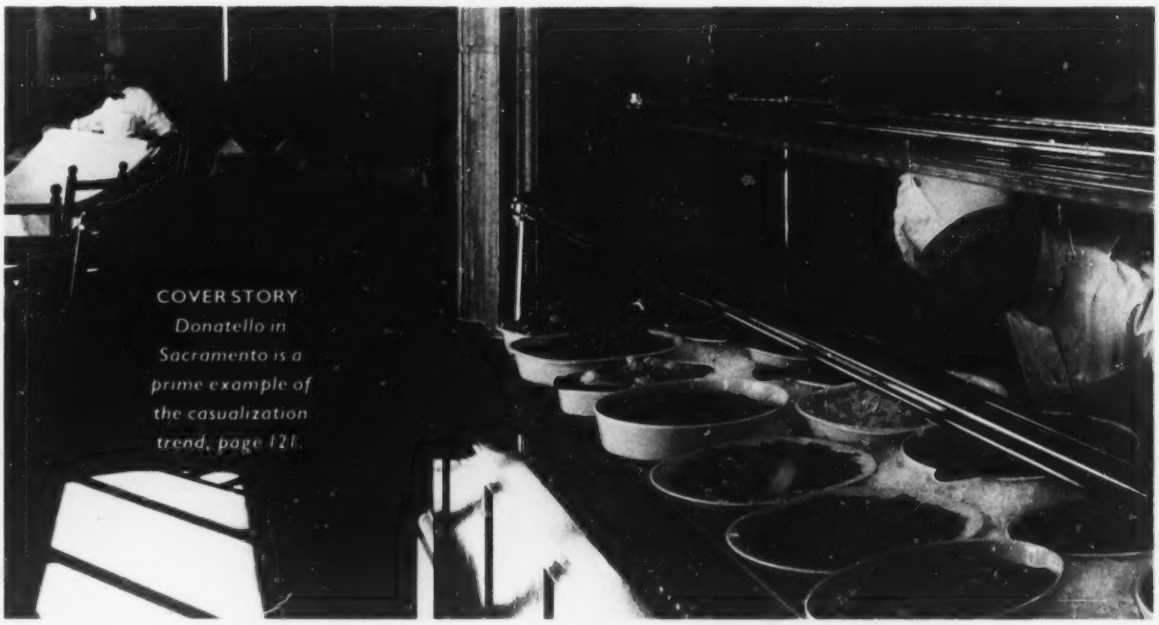

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Donatello in Sacramento is a prime example of the casualization trend, *page 121.*

COVER STORY

TRENDS DOWNSCALING. Call it casualization. Call it the Great Bistro Binge of the '90s. However you choose to describe the phenomenon, the demand for more moderate prices and more informal dining is sweeping the country, and the industry is responding to a very clear and present imperative. 121

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Cover photograph by Mark Tuschman

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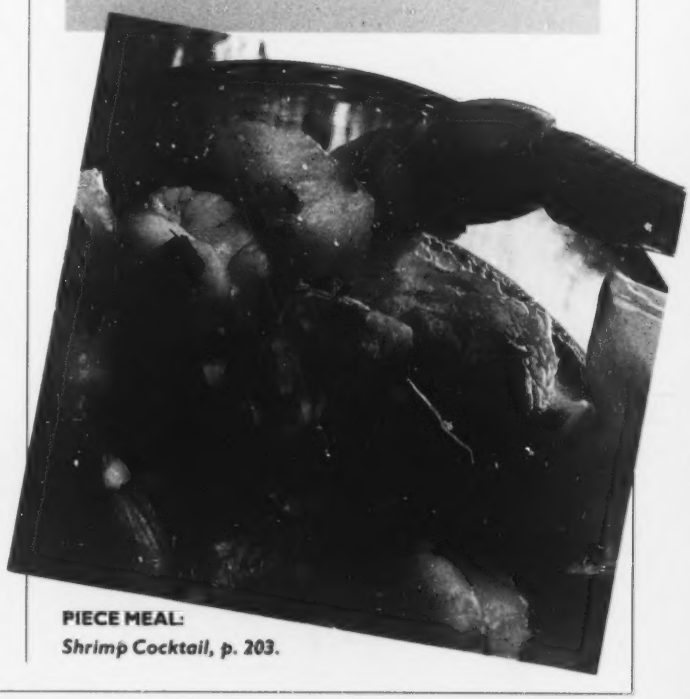
Reprints of the **1989 RESTAURANT GROWTH INDEX** and the **1990 MAJOR FORCES IN FRANCHISING** are available for $5 per copy. Direct inquiries to Editor Peter Berlinski, *Restaurant Business*, 633 Third Ave., New York, NY 10017.

IN THE NEXT ISSUE

COVER STORY MAX & ERMA'S TURNAROUND.
This plucky family chain has enjoyed two years of double-digit, same-store sales increases. Here's why: Founded 17 years ago, M&E has always been well received by the customer, but profitability had been a problem. Since 1986, the company has been in the midst of a transition from an entrepreneurial company to a professionally managed company. It is conducting a three-part improvement plan: developing a strategic focus and identity; operations enhancements; and unit expansion.

SPECIAL REPORT TRASH CLASH UPDATE.
The foodservice and packaging industries face the challenge of heading off restrictive legislation. They are educating the public and government about the need to balance the responsibility for policing solid waste. Chains are already at work on source reduction in their packaging.

MARKET REPORT SEAFOOD.
This segment has been encountering some problems due to seafood's mixed image. Unstable prices and quality have deterred some patrons,



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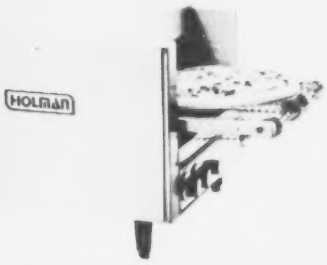

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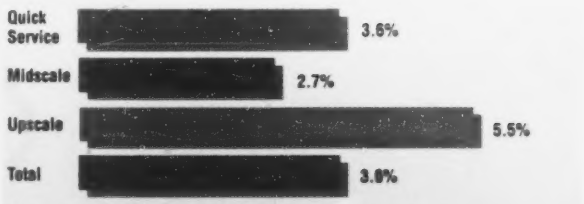
WINTER TRAFFIC GAINS



Change in Winter Quarter,1989 vs. 1988

Traffic for all restaurants was up 3.8% in the winter quarter of 1989 vs. the year-earlier period. This healthy growth was fostered by a significant traffic increase (5.5% in upscale restaurants). Quick-service and midscale operations also saw moderate growth: 3.8% and 2.7%, respectively.

SOURCE: NPD Research, Crest Service

CHART BY STEVE HULL

Taste of the Nation Benefits

As part of *Bon Appetit* magazine's third annual Taste of the Nation benefit, 70 cities across the nation hosted wine and food tastings in late March to raise money for the homeless and hungry.

At the Biltmore Country Club in the Biltmore Hotel, Coral Gables, FL, Miami organizer Allen Susser of Chef Allen's went one step further to garner as much money as possible for the cause. In addition to the food samplings offered by some of the state's most renowned chefs, Susser also auctioned off "Dream Dinners" for four donated by each of the 20 restaurants participating in the Florida event. The auction raised $9,000 of the $33,000 Florida-event total.–**Diane Kochilas**

Grady's Gets Name Change

What's in a name? "Everything," according to Ron McDougall, president of Dallas-based Chili's Inc., which recently changed the name of its Knoxville, TN-based subsidiary concept, Grady's, to the Regas Grill.

"The Grady's name didn't reflect the concept," says McDougall, which is that of an upscale casual eatery, with a full bar and a menu that includes steaks, prime ribs, and seafood salads. "People mistook it for more down-home cooking," he adds, "and often confused it with another chain called Grandy's."

The new name comes from the Regas family, a Knoxville restaurant family that has been in the business in that city since 1919 and was the concept's original owners. The family still operates the Regas Restaurant in Knoxville.

Grady's was an outgrowth of Regas Restaurant. The first unit opened in 1982, when family scion Bill Regas saw a niche for a new concept in Knoxville. Chili's acquired it in February, 1989, and instituted a few minor changes. "We added Florentine pizza and grilled chicken salad to the menu," says McDougall, who also fine-tuned some of the concept's design elements. "We made some small lighting changes and subtle alterations in the wood tones," he adds, "but by-and-large our philosophies are very compatible."

Currently, there are eight Regas Grills in the Southeast, mostly in Tennessee and Georgia. Each unit, with approximately 230 seats, grosses about $3.5 million, on average lunch and dinner checks of about $9.50.

Under Chili's guidance, expansion plans for Regas Grill include opening four new units by the end of fiscal 1990, and six more by the end of fiscal 1991. Chili's wants to move Regas into markets outside the Southeast, and has already opened one unit in Dallas.

–**Diane Kochilas**

continued on page 36

MARTIN KOZLOWSKI

Exit Stage Left

Celebrities will no longer have to wait for their fan mail to discover how their fans rank them. Now all they need to do is consult the menu at New York City's Stage Deli.

After 53 years of naming their triple-decker sandwiches after famous people, Stage Deli owners Paul Zolenge and Louis Auerbach let their customers decide. They distributed ballots for one week, so customers could choose which five celebrities should be added to the menu, and which five names cut. At week's end, 700 customers let their voices be heard. As a result, sandwich lovers can sink their teeth into the following top 10 celebs: Tom Cruise, Mel Gibson, Arsenio Hall, Tom Hanks, Kevin Kostner, Michael Jordan, David Letterman, Bette Midler, Jack Nicholson, and New York City radio personality Howard Stern. Ivana Trump ranked 11th place, according to spokesman Dan Klores. The owners discovered that more non-New Yorkers wanted her on the menu, but New Yorkers didn't think she cut the mustard.

And the losers? Voters wanted Stern's radio rival Don Imus off the menu, as well as Gary Carter, Shecky Green, Pete Rose, Nipsey Russell, Mike Tyson, Max Von Sydow, Jack Wagner, and Oprah Winfrey.

So if fans still want to sample the old menu favorites, they better hurry. Zolenge and Auerbach will be showcasing their new menu in the beginning of June.–Lori Barker

RB

RESTAURANT BUSINESS

In today's tight dining market, operators have come up with a strategy to lure customers back: downscaling. Restaurateurs have discovered the way to recover those patrons who were driven away by formidable average checks or who succumbed to other foodservice alternatives. Old concepts are being revamped by menu, price, and decor to create a more casual dining experience. Brand new restaurants have a decidedly less formal atmosphere; price/value has become the restaurateur's first concern. Fine-dining operators are opening bistros instead of new upscale concepts. The result: more repeat business and a newer, younger clientele. –BY JOAN M. LANG

Call it downscaling. Call it casualization. Call it the Great Bistro Binge of the '90s. However you choose to describe the phenomenon, the demand for more moderate prices and more informal dining is sweeping the country, and the industry is responding to a very clear and present imperative.

Operators are lowering prices. They are opening cafes to complement their upscale restaurants. They are introducing daily specials, prix fixe menus, and lower-priced selections. In short, they are doing what they can to spur business in a slow market.

- Windows on the World, the high-ticket restaurant at the top of Manhattan's World Trade Center, introduced a "Sunset Supper" program in March, consisting of a three-course meal priced at around $25—a significant reduction off the restaurant's average check of $38 (for food only). So far, about one-third of the patrons dining during the 5 p.m. to 6:30 p.m. time slot are taking advantage of the supper, and the dining room is often filled to capacity during this period.
- Tourelle, in Lafayette, CA, was doing well enough as a white-tablecloth restaurant—but its adjacent cafe was doing even better. Last year, the restaurant was completely repositioned as a casual, midscale concept, and its owners are seeing sales gains from 25% to 30%, on a lower average check.
- Spinazzola's, a white-tablecloth Northern Italian restaurant in Framingham, MA, turned an underutilized cocktail lounge into a cafe and dropped the average check in its main dining room by about $5 with the addition of pasta items. The changes have brought in more repeat business and a newer, younger clientele.

The demand for moderate prices and informal dining is sweeping the country. The industry is responding to this new imperative.

Restaurants like these have all responded to softness in the local market by offering their patrons a dining experience that is more in keeping with current lifestyles and expectations.

"Customers are sick and tired of taking it on the chin and paying high prices to eat out," says Jeffrey Senior, an owner of Skipjack's Seafood Emporium in Boston and Brookline, MA, an area of the country where the economy has been particularly hard hit. "If the operators around here don't do something, the customers are going to stop coming." Skipjack's, for its part, has instituted a number of new lunch and dinner selections that deliver exceptional value to the customer, without changing its core menu concept.

ROLLED-BACK PRICES. Value is what it's all about. The Santa Monica, CA-based Michael McCarty Group, which operates Michael's in San Francisco and New York City and Adirondacks in Denver and Washington, DC—four restaurants known for average checks exceeding $50 per person—has rolled back prices across the board by about 30%. Although entree prices are still relatively stiff by anybody's book—ranging in price from $16 to a high of $24.50—management feels that this represents a good value for the overall experience: the quality of the food, the professionalism of the service, and the atmosphere.

At Cafe Rakel in New York City, which was recently "downscaled" from its previous identity as Rakel, the average check is now $40 to $45, compared with $65 before. "I'm not saying we're inexpensive," says Ken Frydman, a principal in the Manhattan-based Epicus Group, which handled the transformation of Cafe Rakel for owner Serge Raoul. "But comparatively speaking, we're more accessible. The prices are more realistic, people no longer have to dress up in a suit and tie to come in here, and we're serving later hours. This restaurant has become more of a neighborhood bistro."

What is behind all of this? Many observers point to economic factors: the stock-market debacle of October 1987, the "Silent Recession" that is overtaking the economy, the tightening of expense-account dollars, the downward slide of real estate prices. But in some ways, the handwriting for an industry slowdown has been on the wall since the birth of the Baby Boom generation: Now in their 30s and 40s, this tremendous engine of expenditure is no longer young and single and free with its entertainment budget. Today's Baby Boomers are staying home, spending money on mortgages, four-door cars, and baby food.

Greed is dead, they say, and with it, the go-go years of upward-spiraling prices—for dinners out, for real estate, for vacations, for everything. One has only to read the magazine ads and watch the television commercials to see what kind of messages savvy marketers are using in this kind of market: Value for your money. Quality. Understatement.

TOUGH CUSTOMERS. Yet today's customers are a sophisticated lot, who came of age in an era when the world was literally at their doorstep. And in some ways, that makes them the toughest consumers of all to please.

"My customers want a good product and a good time, even if they can't afford to go out every night," says Roberto Donna, owner of the $60-per-person Italian restaurant Galileo, in Washington, DC. Donna opened a second more moderately priced trattoria called I Matti (Italian for "crazy") last October. "That means

they want inventive, high-quality food in a comfortable, informal place," adds Donna, who provides all of that at I Matti with an average check of about $25 to $30.

At I Matti, most appetizers (including a variety of crostini, soups, and fried vegetables) are priced at $5 or under; a selection of six pizzas and three calzones carries a tariff of around $8 to $9, and all pastas cost less than $10. Entrees, including items such as braised rabbit, osso buco, *bollito misto* (Italian-style boiled dinner), and grilled chicken, are priced at $10 to $13. The atmosphere is lighthearted and informal, and the restaurant does three to four complete turns a night, for a total of 400 to 600 covers a day.

For the restaurateur, it all points to what Harris H. ("Bud") Rusitzky, 1989/90 president of the National Restaurant Association, calls "the casualization of the American restaurant." According to Rusitzky, it is the most important development to hit the industry in a long time. "Customers now want a more casual, less structured, less expensive dining-out experience," says Rusitzky, citing the results of a recent NRA/Gallup survey (see table, page 126). "Customers are looking for good food and better perceived value, and they are looking for a relaxed atmosphere instead of formality."

Last year, Tourelle was repositioned as a casual, midscale concept.

"We've seen a definite trend toward casual dining," says John Harding, director of public relations and marketing for New York City-based Restaurant Associates (RA), which has been operating casual-dining concepts—such as The Brasserie—for years. RA's newest entrant is Tropica Bar & Seafood House, a Caribbean-style bar and restaurant that replaced Charlie Brown's on the highly trafficked Concourse level of New York City's Pan Am Building.

"We have two markets here, actually," adds Harding. "At lunch, we do quite a bit of expense-account business. But at dinner, more people are spending their own money, and we wanted to be sensitive to that."

The key, says Harding, was to create a very active bar scene, with plenty of specialty drinks and a sepa-

continued on page 126

TOURELLE
MENU SAMPLER

PIZZETTA
With goat cheese and roasted red peppers $4.50

BRIE AL FORNO IN FILO
With nut gremolata and fresh fruit $7.00

CALZONE
With taleggion, spinach, pancetta, red onions, and crushed red chiles $11.00

BRAISED VEAL SHANK
With garlic polenta $11.50

GRILLED LAMB BROCHETTE
With pancetta and caramelized apples $13.50

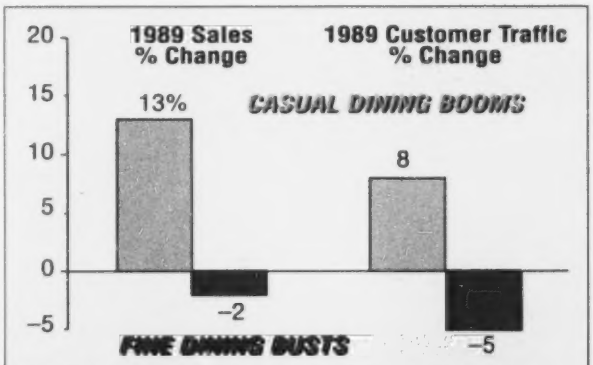
♦

The old menu contained items such as: Oxtail Consomme; Wok-Broiled Squab; and Pike Fillet en Papillote.

rate bar menu. The dining room, with its display kitchen and white tablecloths, is visible from the bar through glass partitions—an attractive lure for bar patrons who find themselves a little hungrier than they thought. But, even if they don't move into the dining room, patrons are eating in the bar, adds Harding, where the average food-only check is a healthy $13 per person. In the dining room, the average check is $20 at lunch and about $27 at dinner.

Whatever the reasons for the changing sensitivities of the marketplace, restaurant sales are distinctly, decidedly down. In New York City and Boston, for instance, some operators are reporting that sales are off by as much as 25% to 30%. In San Francisco, according to Golden Gate Restaurant Association executive director Cecilia Metz, a soft local economy coupled with residual effects from last October's earthquake have pushed sales down about 30%, especially at high-end restaurants.

In Los Angeles, the situation is not as bad, although Gerald Brightbart of the California Restaurant Association reveals that constituents are wondering when business is going to get better. "It's affecting all segments throughout the state," he says. By all accounts, it seems that the industry's pace is off.



According to the 1989 CREST report: "For the first year in modern times, Full-Service restaurants, led by Casual Dining concepts within the Upscale segment, outpaced Quick-Service restaurants. Casual Dining posted by far the best performance, up fully 13% in sales and 8% in customer traffic—at the expense of Fine Dining, down –2% in sales and –5% in traffic for the period."

DEFINITIONS:

Upscale restaurants: offer full liquor service and accept credit cards.

Casual restaurants: average check below $11 at lunch and below $16 at dinner.

Fine Dining restaurants: average check $11 or above at lunch and average check $16 or above at dinner.

Source: CREST, GDR Enterprises

Overall, however, 1989 may have been a better year for the industry than its disastrous predecessor. According to CREST, a service of NPD Research, total industry traffic was up 1.4% over 1988 (a grim year indeed for the restaurant industry, when traffic advanced a scant 0.4%). For the first year in half a decade, customer traffic at full-service restaurants outpaced quick-service restaurants, led by 8% gains in the casual-dining subsegment; by contrast, fine-dining traffic slipped 5% in 1989. According to NPD's George Rice, growth in the full-service sector will continue to be driven by casual-dining concepts, thanks to their favorable price/value profile.

Thus, operators have made the great move to offer more for less—to meet the customer's terms for quality, value, and comfort.

"Let's call a spade a spade. This just has to happen," says David Liederman, who is set to open the casual-sophisticated Broadway Grill in Manhattan's Crowne Plaza Hotel this month with a projected average check $10 below that of his successful East Side venture, Chez Louis. "Customers don't have $100 to spend on dinner anymore."

CONCEPTUAL CHANGES. Liederman is quick to point out that the movement to offer lower prices and a more casual experience is not exemplified by mere price-cutting. "We are talking about complete conceptual changes—offering a different type of menu item that allows a lower price point," he says. "Operators must learn to keep their own costs down in order to keep prices down. We have to buy smarter, hire smarter, lease smarter. This trend is ultimately going to affect everybody, all the way down, from purveyors to chefs to landlords."

Certainly, the downscaling phenomenon fits hand-in-glove with the current fascination with hearty, homey foods like cassoulet, veal shanks, stews, pastas, and simple grilled meats and fish, which can be produced at a lower food and labor cost than the imported lettuces, baby vegetables, and other costly items so favored by the star-crossed chefs of the late '80s.

"Let's face it: Pasta and pizza help keep the food costs down," says Burt Rappaport, a partner with Dennis Max in the four-month-old restaurant Prezzo in Boca Raton, FL, an Italian-style trattoria that specializes in homemade pasta, signature pizza, risotti, and other simple Italian-style fare; the average check is about $18 at dinner. Rappaport and Max, who sold his upscale Cafe Max and Max's Place to concentrate on building Prezzo, feel that the instantaneous success of this new venture is definitely "a sign of the times." The 160-seat restaurant is headed toward $2.75 million in sales for its first year, and more South Florida locations are being sought.

REPEAT DINING. Operators are finding that this strategy encourages repeat dining, that what may be lost in check average is more than made up for in volume—not to mention good will. "If I hadn't added the cafe, I'd be in big trouble right now," admits Alex Sebastian, owner of the Wooden Angel, a destination restaurant in Beaver, PA, referring to his decision several years ago to open an adjacent cafe called, appropriately

enough, The Casual Cafe.

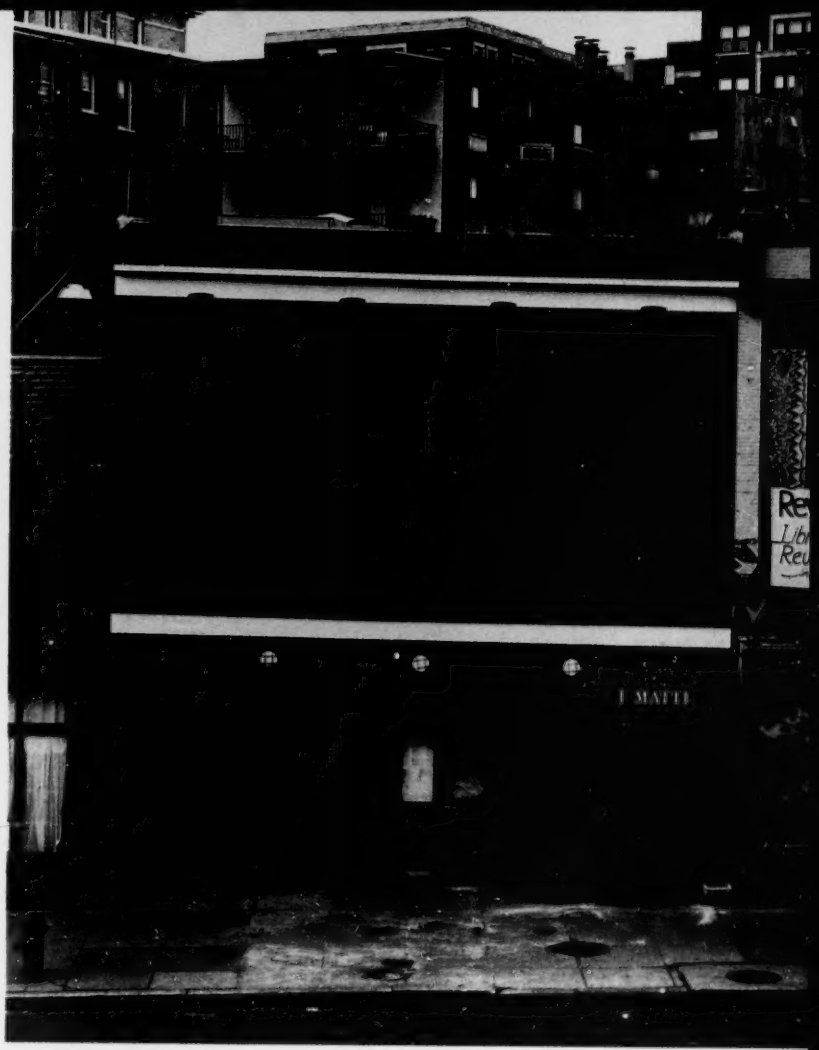
The cafe, with its average check of $12 to $15, is more profitable than The Wooden Angel, and enjoys a repeat customer base that may return as often as four times a week; The Wooden Angel, with a $25 to $35 check average, is frequented perhaps once a month by its most devoted clientele. "We get more people in the cafe more often," says Sebastian, "people who may not want to get dressed up and spend a bundle to come dine out. I often fear that my formal dining business will ultimately suffer. The Casual Cafe already pulls in 25% of my business and I expect it to be 50% soon. But wherever the dollars and cents go, that's where we'll go."

"Our customers were telling us that they couldn't come here as often as they wanted," says Toni Spinazzola, an owner of Spinazzola's, which turned its bar into a casual companion to its white-tablecloth restaurant late last year. "They wanted a place to have a quick, inexpensive bite to eat when they were in the neighborhood, and we decided to offer it to them."

To launch the cafe, the Spinazzola family developed a more informal menu that incorporates several popular items from the regular menu (including venison chili, goat cheese lasagna appetizer, and pizzas), extended the closing time two hours until midnight, and instituted a no-reservations policy.

FOOD COSTS DROP. In addition, they added a number of specialty pasta dishes to the regular lunch and dinner menus, such as chicken and grilled sausage over saffron pasta and grilled scallops and lobster over spinach pasta, available in full and half-portions. The pasta additions have lowered the restaurant's average check by about $5; the cafe's check average is about $10 lower still. The restaurant also realized a slight drop in overall food costs and an increase in loyal patrons.

That broad repeat-business market is what most operators are struggling to attract. "You limit yourself too much if you're just trying to attract that upscale dining dollar," says Jeff King, chairman of University Restaurant Group in Long Beach, CA, which operates several restaurants in the area. "After a certain price point, you are just eliminating a whole portion of the potential customer base."



I MATTI
MENU SAMPLER

PIZZA AGLI SPINACH
With garlic, spinach, ricotta, Fontina, and Parmesan $9.25

IL CARRELLO DEL BOLLITO MISTO
Italian-style mixed boiled meats and vegetables $12.95

GAMBA DI MAIALE AL FORNO
Roasted leg of pork with raisin, pine nut, vinegar sauce, Swiss chard $11.95

CRESPOLINE ALLA RICOTTA E SPINACI
Crêpes filled with ricotta and spinach, baked in Parmesan cream sauce $9.95

POLENTA
With gorgonzola and Parmesan cheeses $6.95

I Matti, a casual Italian bistro, is Roberto Donna's second concept in Washington, DC.

University's original restaurant, 555 East in Long Beach, has been known since 1984 as a special-occasion restaurant by dinner and a power-lunch spot during the day, and while it is very successful, each of the company's subsequent restaurants have grown more casual and more moderately priced. Four-year-old Ocean Avenue Seafood, in Santa Monica, courts a more informal, younger clientele with fresh seafood, an oyster bar, and lots of appetizers. The average check, like 555 East's, is about $30 per person, but the ambience is far more convivial.

Providing that type of dining experience has become remarkably strategic. In Charlotte, NC, a city that has successfully challenged Atlanta as the financial center of the South, growth is booming, and many operators are taking extra care to satisfy local customers in a variety of ways. At the new First Union National Bank head-

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quarters, set to open this spring, a restaurant company known as Tricor Inc. is developing multifaceted foodservice designed to help spur and support a vital night- and weekend life in a traditional "downtown" setting.

Appropriately called Prisms, the foodservice concept includes both fine-dining and bistro-cafe facilities, as well as retail bakery and deli/take-out outlets, according to Ed Tubel, president of Tricor. A single menu program, which will incorporate California, continental, and Southern-style motifs, will be adapted for each venue, adds Tubel. In Prisms Bistro Cafe, the same menu will be featured all day, for an average check of $4 to $7. That menu will serve as the basis for the lunch daypart at Prisms Fine Dining, but a special dinner menu will generate an average check of about $17 to $22.

CREATING DIVERSITY. Service styles and ambience will be equally differentiated. "The trick will be in creating that diversity within the common Prisms identity," notes Bill Main, a project consultant who is based in San Francisco.

Obviously, just lowering the prices doesn't work, although there are a number of value-building strategies that operators can implement without throwing over the original concept.

Phillipe Accad, managing partner of Fleur de Lis in Milwaukee, made the restaurant more appealing by adding daily $6.50 lunch and $15.95 dinner specials, as well as some first-ever chicken dishes, which lower the price range of entrees on the regular menu from $18 to $25, to $15 to $25. Fleur de Lis' average check has been reduced about $10 in the process, to about $40 on weekend nights and about $45 on weekdays, but volumes have increased almost 20%.

"We were a destination restaurant serving fine French cuisine," says Accad, who took over the faltering restaurant two years ago, when it was losing about $100,000 a year. "But people were telling us that Fleur de Lis was too expensive, too stuffy, and that the portions were too small. We didn't want to change what was nice about the restaurant, however; we just wanted to make it more affordable.

PROMOTE SPECIALS. The solution was to add to the lower end of the menu and to promote value-oriented specials. The daily Business Lunch offers a soup or salad and an entree for $6.50; the Monday-through-Friday Regional Dinner, priced at $15.95, includes soup or salad, entree, dessert, and a glass of appropriate wine. The specials have a more rustic, homemade quality than the balance of the menu, says Accad, and have therefore made Fleur de Lis less intimidating.

About 25% of the day's customers order a special, and Accad says they are new customers, not regulars trading down. "Our profit margin may be slightly lower, but we're doing a lot more business, and it's making us money."

Jasper White, the proprietor of Jasper's, an 80-seat, upscale restaurant in Boston, recently changed his menu to incorporate newer, lower-priced items and more side dishes, lowering prices across the board by about 5% into the bargain. White has seen his average check decrease by about $10 as a result, and he couldn't be happier—volume is up.

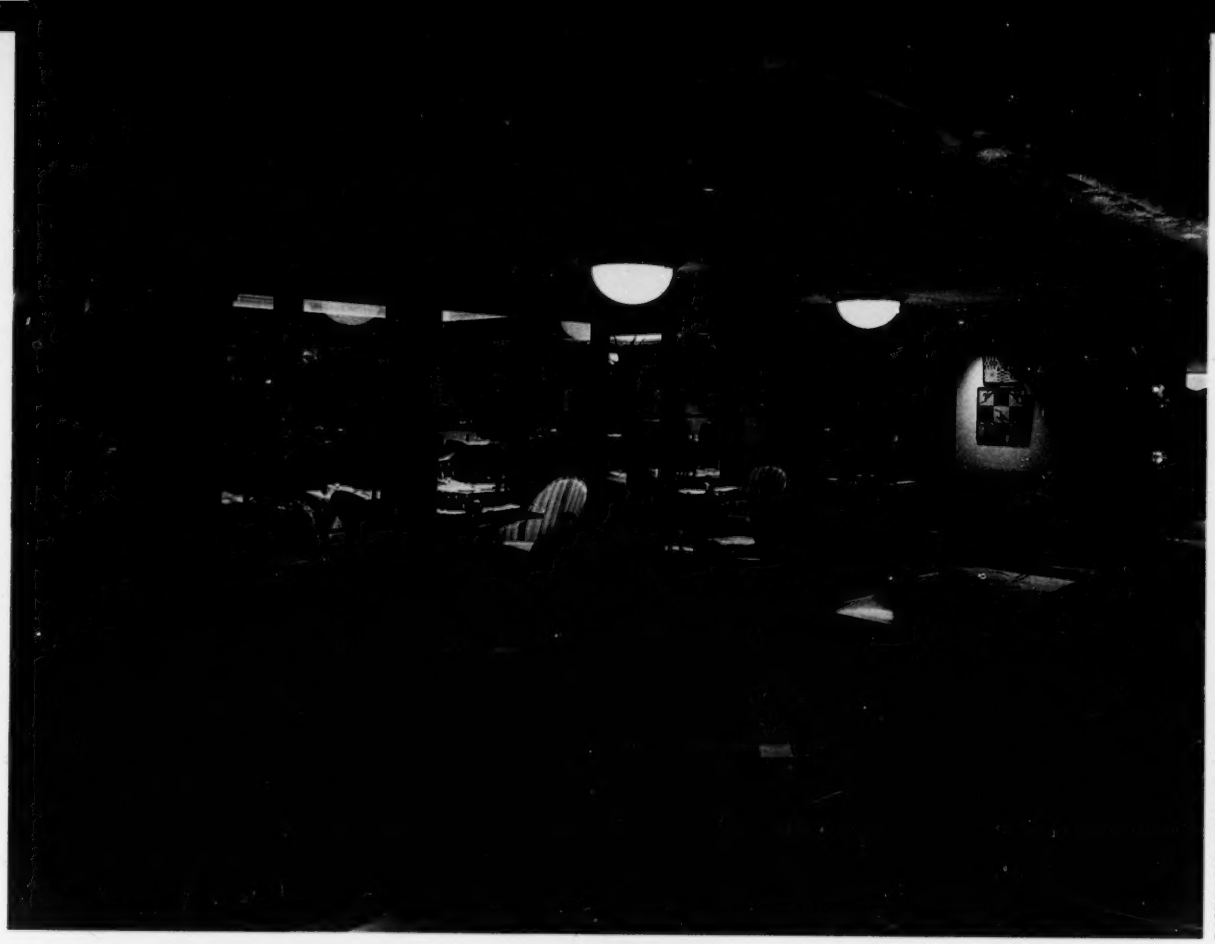
Operators are doing what they can to spur business: lowering prices, opening cafes, and introducing lower prices.

RESTAURANT RENAISSANCE. "I saw the writing on the wall, and I wanted to keep this place busy," explains White, who was a leader in Boston's restaurant renaissance when he opened Jasper's seven years ago. Since then, competition has boomed, the economy has faltered, and Jasper's customer counts began to slip. "By lowering the average check, I'm keeping the customer happy, and I'm cooking some things that I've always wanted to and didn't have a forum for."

White's was a subtle move; rather than simply changing the menu, he restructured it, adding less-expensive items such as fresh codfish cakes with wilted greens ($16) and chicken and oyster pot pie ($18) that maintain the spirit of his contemporary American menu; the bulk of the entrees are still priced at $20 and up. In addition, White added interesting side dishes, such as parsnip puree ($3), Boston baked beans ($3), and Andy's favorite onion rings ($4). In effect, he retained the top end and added an entire new lower tier.

At The Sardine Factory, a destination restaurant in Monterey, CA, owners Ted Balestreri and Bert Cutino introduced a series of three-course Anniversary Special dinners, priced at under $20, which have helped keep sales from declining over the past two rough years. "You have to work a lot harder to get the same head counts," says Balestreri, who notes that the region's hotels lost as many as 1,000 room nights' worth of visitors thanks to last October's earthquake. "We have been working with local hotels to bring in groups, marketing to our special customers, offering free hors d'oeuvres in the bar on Friday nights—anything to keep people coming in.

"A few years ago, having four or five stars in the guide books was the key to success," notes Balestreri. "Today, people think 'expensive' when they see those



PHOTOGRAPH BY NANCY SCARIATTI

Tropica's bar lures patrons passing through Manhattan's Pan Am Building.

stars. And the more formal a restaurant is, the more expensive customers think it will be. We have to make dining out more casual and more accessible."

Certainly, people respond to the appearance of lower-priced items on the menu—often by spending just as much, but going away with a better perception of value. Pat Kuleto, a restaurateur and restaurant designer (his Sausalito, CA-based company is called Kuleto Consulting & Design), has found this to be very true at Kuleto's in San Francisco, a popular Italian restaurant in the Villa Florence hotel. The menu is made up of categories including antipasti, soups and salads, pastas, main courses, and side dishes; the single most expensive item—grilled veal chop stuffed with prosciutto and mozzarella—is $16.95, and most items are far less.

"We played into the whole 'grazing' movement here," notes Kuleto. "People are able to assemble their own dining experience, chosen from a large variety of smaller, less expensive items. They'll have appetizers in the bar and again in the dining room. They'll try different things. They'll make a whole evening of it. Or, they'll come in for a late, light supper. The point is, the prices look low, so they feel free to spend more because they're getting what they want."

TROPICA

BAR MENU

POPCORN SHRIMP
Spiced fried shrimp with Lemon Hot and Cocktail Sauce $12.50

POACHED FISH SALAD
With winter greens; Tropica vinaigrette $12.50

JERKED PORK SANDWICH
With red chile sauce garnish $9.50

DINING ROOM MENU

CONCH CHOWDER
With christophene and okra $4.75

SEA SCALLOPS
And plantain tamale steamed in banana leaf $22.50

BLACK ANGUS SIRLOIN
With red chile onions and pepper sauce; 16 oz. $24.50

Hours of operation seem to play an important part in the casual-dining puzzle. Tino Scarpa, formerly the owner of the upscale New York City restaurant Tino's, teamed up with partner Richard Tannen to open a new casual-style trattoria called Faces, on Manhattan's Upper East Side. The restaurant opens at noon every day and stays open until 1 a.m., a strategy that would have seemed like operational suicide just a few years ago.

"I didn't want to do another formal restaurant," says Scarpa. "I couldn't have survived. I have a tremendous advantage here because my customers can just drop in here, whenever they want, and always feel comfortable. It may cost me a little more to keep people on duty throughout the day, but it's worth it."

Caffe Latte, a moderately priced restaurant located in a mini-mall in the high-traffic Wilshire area of Los Angeles, is open continuously from 7 in the morning to past midnight. "I can't charge more than about $14 for an entree because of the location," says Tom Kaplan, Caffe Latte's owner, who also ran the more upscale Italian restaurant, Hu-

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go's, for his father. "But I can draw in the neighborhood with great breakfasts and lunches and make my money that way. You don't get a big draw with expensive prices and formal service any more. You get it from a moderate price point and a comfortable atmosphere."

Kaplan, for his part, is seeing sales of more than $1 million annually on Caffe Latte's 40 seats, appealing to local families with children, weekend dalliers, and convenience-seeking working people who don't have time to cook at home. "We serve wonderful food here, but we're not going to turn you away if you have a baby in tow. In fact, some days it seems like there are more people under the age of 10 in here than there are adults."

In fact, more operators are marketing to kids—principally because more of their customers are having them. "It's surprising to me how many families bring their kids out with them, even at night," says Larry McIntyre, who closed Manhattan's Cafe Central restaurant five years ago to concentrate on its more casual, downtown counterpart, Chelsea Central.

Though he has no children's menu, he's acquired a supply of booster seats and welcomes the family trade, who appreciate his relatively gentle prices—at least by Manhattan standards. Average check is about $30. Giving customers what they want, on their terms, is paramount. "Restaurants have to be user-friendly," insists Robert Nyman, president of The George Lang Corporation, a restaurant consulting firm based in New York City. "Customers have too many other options for their dining occasions."

Restaurateurs are offering their patrons a dining experience that is more in keeping with current lifestyles and consumer expectations.

Nyman and partner Andrew Young, who is director of operations, were called in to transform a restaurant called The Polo Grille, in Palm Gardens, FL, into just such a user-friendly restaurant now called Beaches Restaurant & Grill. The restaurant says Young, was "traded down." "We put it in a new, more competitive context," Young explains.

According to Alfredo Taulé, president of Beaches, the old Polo Grille had been too overpriced, too stuffy, too "straight" for the area. "The whole atmosphere looked expensive," he says. "Businesswise, it wasn't attracting a broad-enough base of clientele, and it wasn't meeting financial expectations."

A year after its original opening, The Polo Grille was transformed into Beaches. Walls were opened up, exposing the kitchen from every direction, and the restaurant was redecorated to reflect a lighter, more colorful spirit; in the process, the number of seats was reduced by 30, to about 220. The menu retains many of Polo Grille's more popular dishes, but is simplified and presented in a livelier format at a more moderate overall price point.

Because of these changes, the average check dropped from $25 to about $16. The staff was cut back by a margin of 50%, casually outfitted in shorts and polo shirts, and trained to give friendly service.

"Business is much, much better now," says Taulé. We're bringing back some of our old clientele, and getting in new customers all the time. The restaurant is now profitable on a volume of about $2 million. At the end of the season, says Taulé, additional locations for Beaches will be sought in South Florida.

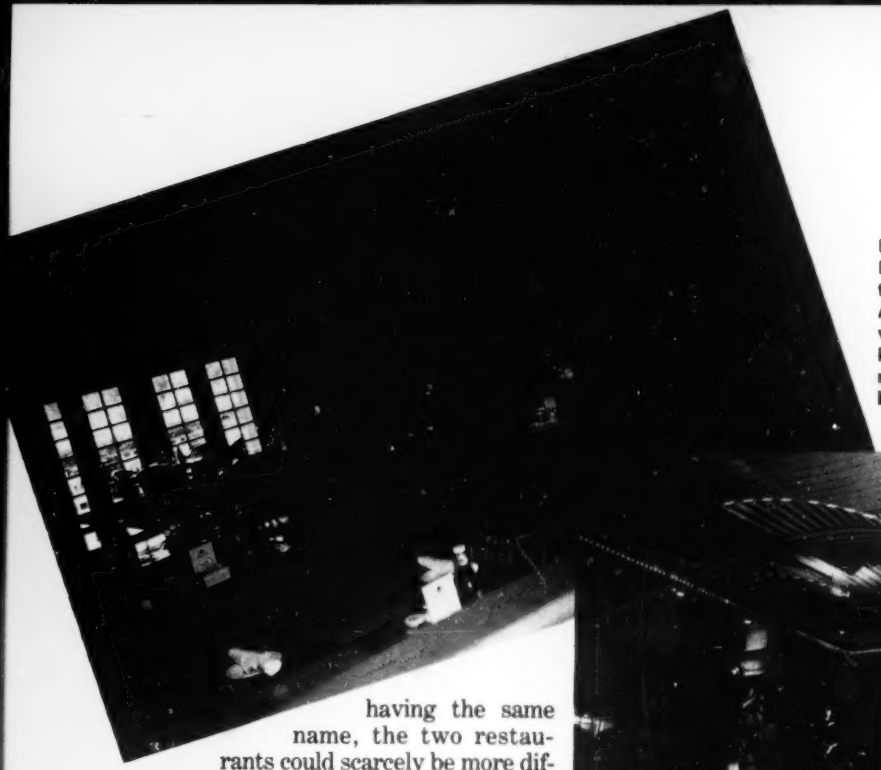
Such a makeover is obviously expensive. The owners of Tourelle, a five-year-old restaurant in Lafayette, CA, 20 minutes east of San Francisco, spent eight months and about $1.9 million last December to convert what was once a fixed-price, formal restaurant with a related casual cafe to an all-casual concept.

"We were very serious about this project," notes Robert Burke, president of Bedford Hospitality Inc., which also owns the upscale restaurant Lascaux in San Francisco; its parent company, Bedford Properties Inc., is a diversified real-estate development and management company. "The fixed-price dining room was doing all right, but the cafe's volume was much stronger. We decided to give the entire restaurant that cafe ambience, menu, and pricing structure."

The two separate dining areas were linked into one by a spectacular new glassed-in atrium, where live jazz and light fare are offered. The original cafe menu was broadened with more appetizers, pastas, fish dishes, grilled items, pizzas and calzones, and desserts—all in what Burke describes as a "European country vein." Average check, which had weighed in at about $35 to $40 per person, is now about $20.

POSITIVE RESPONSE. The response has been overwhelmingly positive, says Burke; sales have increased 25% to 30%. "Our counts are way up, and because we have also focused so much of our effort on controlling every expense, our margins are better. We are operating much more efficiently now."

Many operators are finding success with casual companions, opening second restaurants that trade off the well-established name and reputation of a more formal restaurant. A case in point is Caffe Donatello in Sacramento, a downscaled spinoff of A. Cal Rossi Jr.'s high-ticket Donatello restaurant in San Francisco. Despite



BEFORE: The old Polo Grille was too stuffy. **AFTER:** The concept was transformed into Beaches and now reflects a lighter spirit.

having the same name, the two restaurants could scarcely be more different in price and degree of formality.

We wanted to be the Chart House of Italian restaurants," says Charles Frank, president of San Francisco-based CAF Restaurant Services (and former president of of Spectrum Restaurants), who worked with Rossi to develop Caffe Donatello. Whereas Donatello is a *ristorante* in the grandest Italian sense—with the tuxedoed waiters and $65 check average to prove it—Caffe Donatello is all *trattoria*: casual, nonintimidating, and moderately priced.

The centerpiece of Caffe Donatello is a 7-ft.-long, 20-item self-service antipasto bar, priced at $9.50 à la carte, but included with the price of an entree. "The bar speaks to abundance and value," says Frank. "It's fun and it's very distinctive." Their operation also includes a big exhibition kitchen—Frank refers to it as the "cookhouse"—which turns out pizzas, rotisseried and grilled items, and pastas. The 150-seat Caffe, opened in February, attracts a young clientele, who spend between $25 and $30 apiece for dinner. So far, it is more than meeting its projections.

Deborah and Carlos Nieto, owners of the upscale restaurant Carlos in Highland Park, IL (average check: $75 per person), snapped up the opportunity to operate a second restaurant, La Foret, in nearby Lake Forest, but they kept it casual in order to avoid "competing with themselves," according to Deborah Nieto. "We wanted La Foret to be high quality, like Carlos," she says, "but be simpler and less expensive." Decor and food are French-style, but casual: The small regular menu includes steak *frites*, stuffed *paupiette* of chicken, and grilled fish, with entrees priced under $20 (to Carlos' $26 to $29).

Does all of this mean a death knell for fine dining? Though many observers believe that the market is undergoing a fundamental change in its expectations, most also agree that there will always be room for the special-occasion dinner.

"I feel quite sure that we are in the midst of a cycle where people want to spend less on food," says Barry Wine, proprietor of Manhattan's ultra-pricy Quilted Giraffe, where average checks, including service charge, approach $150 per person. "But we are not lowering our prices. As our competitors start moving out of this niche, we expect to see more and more people coming in here for that $200 bottle of wine, that $50 caviar special," he adds, acknowledging that many of his customers today are Japanese. "Business is a little softer than it was three or four years ago, but I still think there will always be a demand for a quality dining experience." **RB**

BEACHES
MENU SAMPLER

SPINACH AND CHEESE RAVIOLI
Served with tomato basil sauce $5.50

SEAFOOD COBB SALAD
With shrimp, salmon, and clams on chopped greens, with cucumber, avocado, gorgonzola, and bacon $9.95

GRILLED SALMON BLT
Served with tarragon mayonnaise on toasted whole wheat $7.50

CORAL BURGER
With cheddar cheese and bacon $6.95

WOOD-FIRED "ZZAS"
Topped with ingredients including Jack cheese, broccoli, pesto, black olives, sausage, and chicken $6.75 and up

GINGERED BABY BACK RIBS
Honey, mustard, and mandarin glaze $9.95

at the same time emphasizing new products. "We've changed our target to attract a younger, more female, more family-oriented crowd," says Webb. "Our research showed us that we were about 58% male, and we wanted to get that down to about 52%."

Rax's new products include a line of chicken sandwiches, which now account for 12% of sales. "The jury is still out, but the menu changes and the advertising have increased our female and family base," says Webb.

Spaghetti Warehouse, a Dallas-based chain of 15 sit-down restaurants that garnered $28 million in sales last year, has chosen the path of family-oriented product advertising. "We don't really have the money to target specific audiences. People in our markets know who we are and what they can expect from us," says Robert Gilka, vice president of marketing for the chain. "We have to advertise to entire metro areas because our stores are all located in downtowns, so we're a destination, not an impulse. We're constantly reaching out to let people know where we are and what we're offering."

DEPENDING ON TV AND RADIO ADVERTISING, CHAINS BATTLE FOR "SHARE OF EYE AND EAR."

But who are chains reaching out to grab? Many chains don't know, and several marketers are convinced it's best to find a target audience and aim advertising in that direction. As IHOP's Petisse says, "We realized that we can't be all things to all people."

FINDING NICHES. Indeed, chains with a broad base often have more difficulties pinning down the marketing target than others. But some—like Max & Erma's—finally find their lucky niches. "Two years ago, we took a hard look at our consumers, and we successfully switched our focus," says Karen A. Brennan, vice president of marketing for the 15-unit Columbus-based chain. Its new target market: frequent diners.

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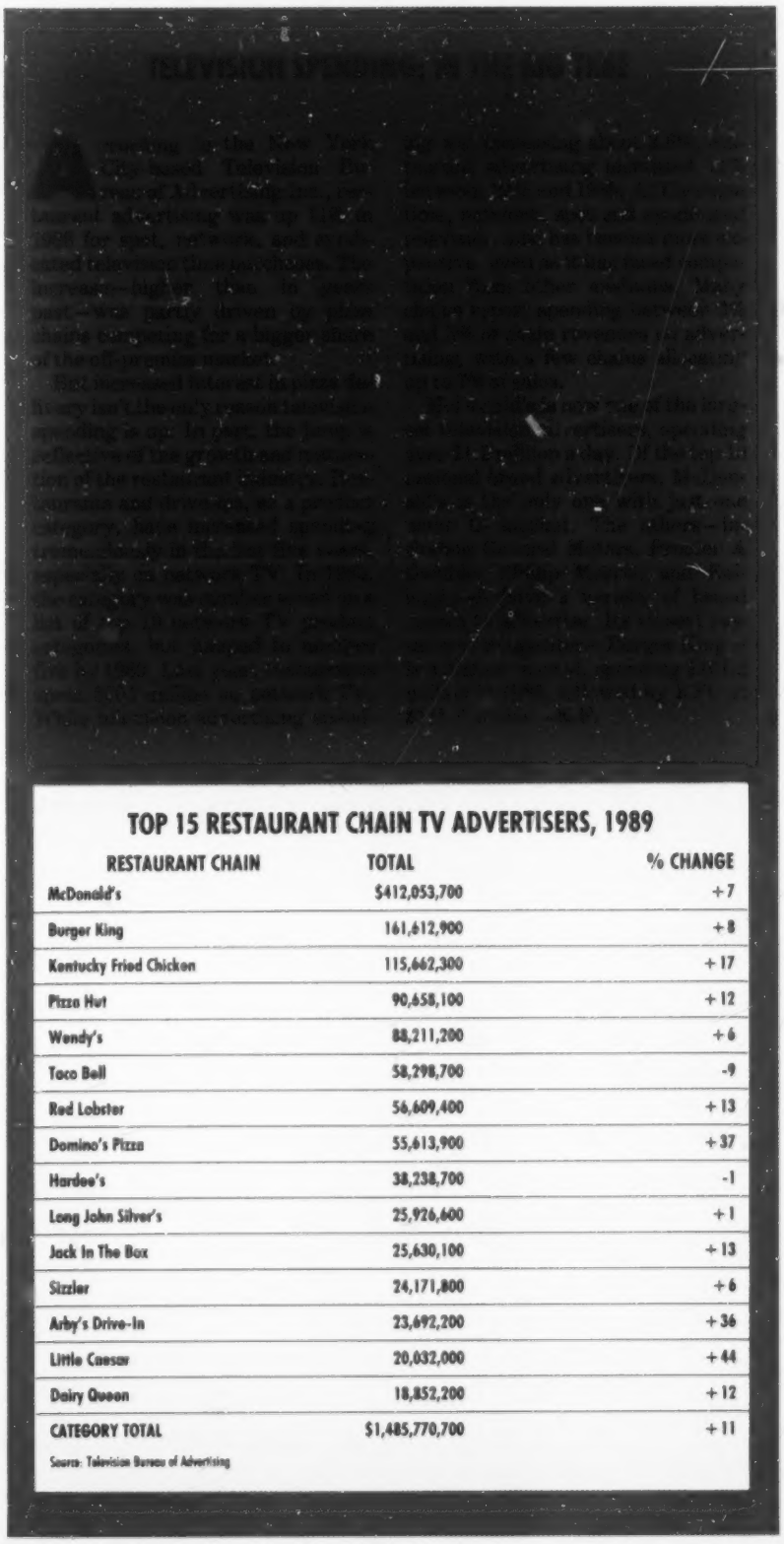

TOP 15 RESTAURANT CHAIN TV ADVERTISERS, 1989

RESTAURANT CHAIN	TOTAL	% CHANGE
McDonald's	$412,053,700	+7
Burger King	161,612,900	+8
Kentucky Fried Chicken	115,662,300	+17
Pizza Hut	90,658,100	+12
Wendy's	88,211,200	+6
Taco Bell	58,298,700	-9
Red Lobster	56,609,400	+13
Domino's Pizza	55,613,900	+37
Hardee's	38,238,700	-1
Long John Silver's	25,926,600	+1
Jack In The Box	25,630,100	+13
Sizzler	24,171,800	+6
Arby's Drive-In	23,692,200	+36
Little Caesar	20,032,000	+44
Dairy Queen	18,852,200	+12
CATEGORY TOTAL	$1,485,770,700	+11

Source: Television Bureau of Advertising

PIZZA

MARKET SEGMENT REPORT

Growth has been tempered by maturation.

by Jacque Kochak

Overall, the pizza segment is still healthy, although competition is ferocious. Regional chains and independents are fighting a mighty battle against the three biggest pizza chains as they expand into new territories.

"The pizza chains are still among the strongest in the industry," says Bob O'Brien, director of sales and marketing for Park Ridge, IL-based GDR/CREST, a market research firm. "However, growth of the biggest chains has been tempered recently, and the wealth spread out," he adds.

THE BIG THREE. For the last several years, the big news in the pizza segment has been the growth of the Big Three: Pizza Hut, Domino's, and Little Caesars. About 50% of the pizza market is owned by independents and small chains, and CREST data shows that their market share has been shrinking.

"What we're seeing is that the little guy hasn't been able to compete. He doesn't have the buying power, for one thing," says Nick Andreanos, owner of the 23-unit Ameci Pizza & Pasta headquartered in Canoga Park, CA.

"Unless a pizza concept is well-capitalized and able to build a strong following, the future could be bleak," agrees Dennis Steinman, vice president of franchising for Portland, OR-based Papa Aldo's. "After all, a company like Domino's spends as much on advertising as our systemwide sales."

That shrinkage of market share has apparently stopped now, however. Resistance by independents and small chains has stiffened, and they are holding the line against the giants.

"Perhaps the chaff has been separated from the wheat, and only the strongest independents have survived," suggests O'Brien.

A survey of the market shows that many independents and small chains have indeed figured out how to compete against the voracious Big Three. Some offer a more upscale dining experience, and some offer lower prices. Others seek out locations in smaller towns, where the competition is not so intense. They have identified their strengths and remain optimistic about the future.

One cloud on the horizon for every pizza operator is the threatened introduction of McDonald's pizza. The proposed McPizza, still under test, is the Oak Brook, IL-based chain's effort at building the dinner daypart.

Many physical problems exist for putting pizza in every McDonald's unit, however. Kitchens would have to be retooled to accommodate pizza ovens.

"It just boggles the mind to think about finding room for the equipment,

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Papa Aldo's offers take-and-bake pizza.

PIZZA

MARKET SEGMENT REPORT

but McDonald's has done some amazing things before," says O'Brien.

Although some are skeptical about the ultimate success of a McDonald's pizza, many are nervous.

"Everyone in the industry is keeping a close eye on McPizza," says Moira McDermott, manager of media relations for Ann Arbor, MI-based Domino's Pizza. "Whenever an organization as large as McDonald's moves into new territory, you have to keep an eye on them."

The McDonald's pizza is a 14-in. round pie ranging in price from $5.87 for a standard cheese pie to about $9.50 for a deluxe, which features cheese, sausage, pepperoni, green peppers, onions, mushrooms, and tomato slices.

In test markets, the product has been advertised as "The pizza you won't believa" in television spots that focus on McDonald's ability to deliver food fast. A pizza order is said to take only 5½ minutes and will be available through the drive-thru.

"I went up to a test market and tried their pizza, and it was very average," says Greg Lippert, vice president of marketing and advertising for Tulsa, OK-based Mazzio's Corp., which operates 259 pizza units in the Midwest. "But it wasn't terrible, and it was priced reasonably. Because of the number of locations, McDonald's pizza is very accessible. There could be a real discounting war if McDonald's rolls out a pizza."

Incidentally, McDonald's is not the only outsider that sees pizza's potential for building dinner-hour sales. Austin, TX-based Schlotzsky's, a 250-unit sandwich chain, has recently added a 12-in. pizza priced at $3.89. It is available after 4 p.m. in company stores.

Independents and regional chains battle the giants.

INCREASING COSTS. Another factor making the pizza segment more competitive is increasing costs.

"Pizza is becoming much more expensive," says Papa Aldo's Steinman. "The cost of cheese is up, and minimum wage is up. As a result, a lot of operations

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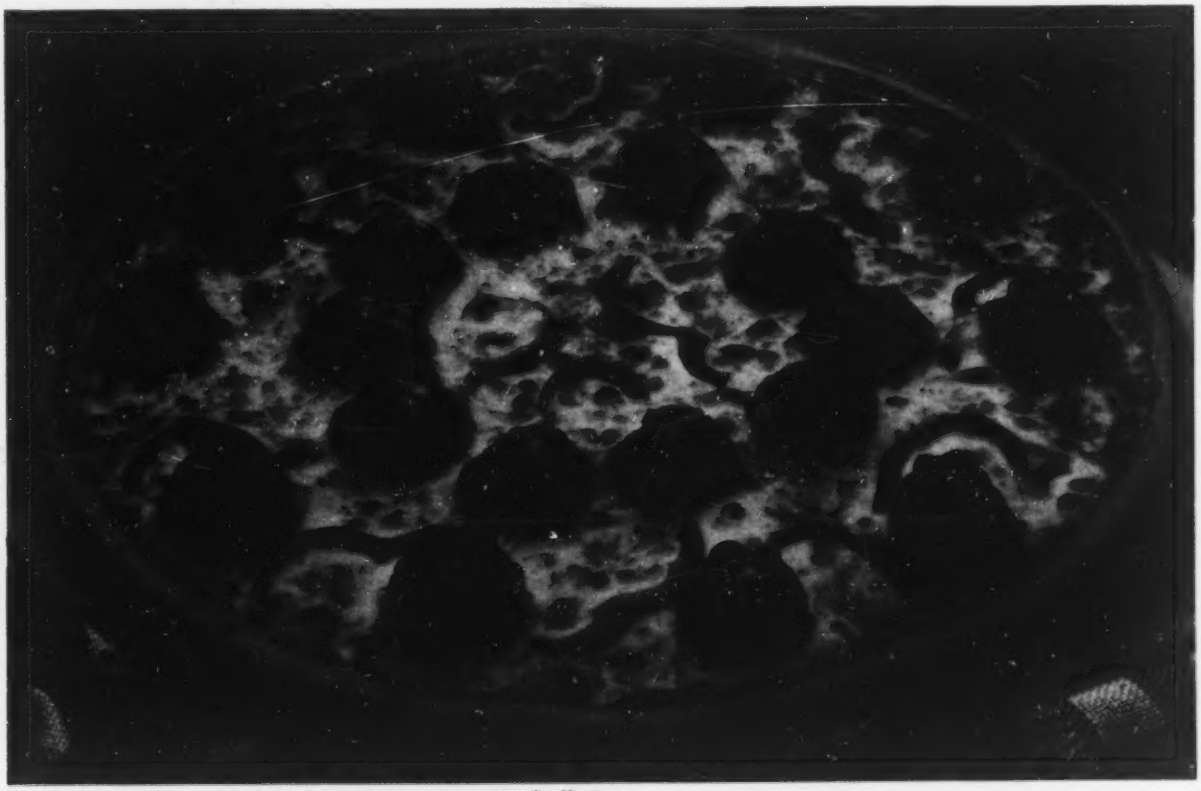

Godfather's newest product introduction is a meatball pizza.

PIZZA

MARKET SEGMENT REPORT

offer a smaller size pizza that can be advertised at a cheaper price yet give the impression of value. That value perception is important."

For example, the McPizza is 14 inches, and Little Caesars two-for-one pizzas. Pizza Hut and Papa Aldo's are reportedly testing a downsized 14-in. pizza.

As the large pizza chains have gained power over the last few years, observers notice a parallel to the development of the burger market. While independents continue to hold a significant share of the market, especially in the Northeast, there is no question that large chains are gaining in importance. Some independents are becoming franchisees of the large chains rather than trying to fight them. Others have gone out of business.

Among the chains, a shake out has already occurred. Pizza Inn, once the third largest chain in the country, is in bankruptcy proceedings following its $48 million acquisition by St. Louis-based Pantera Corporation in 1987. The 600-unit chain entered Chapter 11 bankruptcy last fall after two leading lenders decided not to waive the company's debts for 30 days.

A new president, Jeff Rogers, recently came on board. Rogers is former president of Dallas-based USACafes, operator of Bonanza steak houses. Pizza Inn has been said to be seeking buyers for many of its company-owned Pizza Inn units, but Rogers' appointment might indicate that another strategy is under consideration

Some other smaller chains, such as Austin, TX-based Mr. Gatti's, are reportedly in trouble. A few others are on the block.

"The problem is that a national chain has different costs because of economies of scale," says Mazzio's Lippert. "Some regional chains in this area tried a discounting strategy and they followed it to oblivion." A company can't cheapen its product and expect to survive, he says, but that is exactly what some pizza operators tried to do.

Domino's stakes its reputation on 30-minute guaranteed delivery.

Pizza Hut, Domino's, and Little Caesars own 50% of the pizza market.

The segment leader, the company that helped popularize pizza in every little corner of America, is Wichita, KS-based Pizza Hut. The company, with some 6,000 domestic units and sales estimated at more than $3 billion annually, is a subsidiary of PepsiCo.

For many years Pizza Hut reigned unchallenged over the pizza segment, but in recent years Domino's has started closing the gap.

In response, Pizza Hut has mapped out aggressive expansion plans of its own. The latest development is the purchase of 263 Winchell's Donut outlets, primarily in Southern California, a Domino's stronghold. The units will be converted over the next two years into Pizza Hut carry-out and delivery units.

"Overnight, we'll have a 10% increase in company-owned units," says a spokesperson for Pizza Hut.

The country is also being blanketed with small Pizza Hut units in airports, hospitals, and colleges thanks to a franchise agreement with Washington, DC-based Marriott Corp.

Marriott is selling its Roy Rogers and Big Boy units in a move to get out of the fast-food business. But at the same time, it is becoming a franchisee of Pizza Hut, Mrs. Fields Cookies, TCBY, Nathan's Famous, Burger King, and Popeyes under the umbrella of its contract services division. The various concepts are being opened in different combinations on contract clients' premises.

Pizza Hut has introduced several new products, including a new Sausage Lover's pizza with three sausages. The company's Lover's line of pizzas, piled with extra toppings, includes a Meat Lover's pizza with six different kinds of meat toppings.

In an unusual move for a national company, Pizza Hut is attempting to tailor its marketing efforts to local needs. Pizza Hut is also aiming at children. It is training workers to be more friendly to kids and also offering higher-quality toys.

As part of the effort to attract children, Pizza Hut has signed a partnership with the children's television network Nickelodeon. The company is also building promotions around important sporting events such as the World Series, the Super Bowl, and Little League.

Domino's continues its upward

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Mazzio's newest offering is a 3-lb. pizza.

All the segment players fear a McDonald's McPizza.

march with sales of $2.5 billion in 1989, a nearly 10% increase over 1988. Some 5,222 units generate average unit volumes of $468,000 a year. The company intends to add 400 units in 1990.

"Long range, we'd like to have 10,000 Domino's units in operation," says McDermott.

The company already has units in 20 countries from Australia and Colombia to Taiwan, and future expansion overseas will be proportionately greater than in the U.S., says McDermott. In sheer numbers, however, U.S. expansion will be far greater, with the emphasis on filling in gaps in markets and further penetrating small towns.

The most significant development is pan pizza, Domino's first new product since the company's inception. Introduced systemwide in April 1989, pan pizza was a response to customers' demands, says McDermott.

The pan pizza bakes in the same amount of time as the original crust pizza. The major challenge was developing a pan and dough that could be used without major renovations to units, and McDermott says the company went through literally dozens of pan designs to achieve that goal.

In June 1989, founder Tom Monaghan moved to the position of chairman and chief executive officer, promoting former vice president of operations Paul David Black to president. Monaghan has long been interested in philanthropic causes, and wants to spend more time on charitable work.

McDermott notes that sales continue to be strong, with the company posting one of its strongest Januaries on record because of a special price promotion that boosted sales 7%.

TWO FOR ONE. Farmington Hills, MI-based Little Caesars Pizza has made a name for itself by offering two-for-one pizzas, and the company now ranks as the third largest in the pizza segment with 1989 sales of $1.13 billion. Sales in 1990 are expected to reach $1.5 billion, says Lisa Ilitch-Murray, vice president of national training and corporate communications.

The company currently operates 2,700 units, two thirds of them franchised. Some 3,300 units are expected to be open by the end of 1990, with market penetration to continue in all states and major cities. The greatest number of units is located in the Midwest.

Little Caesars network advertising is designed to help create customer awareness of Little Caesars and emphasize value. "We really own that niche," says Ilitch-Murray.

Little Caesars hasn't added any new products since 1988, when the Baby Pan Pan made its debut. Baby Pan Pan consists of two 6-in.-sq. pizzas. The Pan Pan, a deep-dish pizza, was introduced earlier that year.

Omaha, NE-based Godfather's Pizza continues to show solid growth. The 512-unit chain, under Herman Cain's leadership, posted sales of $225 million for fiscal 1989, with average unit volumes at $438,000. That is an increase over previous years, according to Steve Frisbie, public relations manager.

Godfather's was purchased from parent Pillsbury in September 1988 in a le-

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veraged buyout by Cain and his management team. Since then the focus has been on the basics, ensuring that Godfather's offers consistent service and quality.

Godfather's units are spread across 38 states, with concentrations in the Northwest, Southwest, and Southeast. Most units deliver, with delivery making up 30% to 35% of sales.

Newest product introductions are a meatball pizza and a barbecued beef pizza, which are being rolled out in several markets. More products are in the research phase, according to Frisbie.

TAKE-AND-BAKE. A variation on carry-out and delivered pizzas is the take-and-bake pizza, which customers pick up to cook in their own ovens. Papa Aldo's is an example of such a concept, with 90 units now open. Most are located in the western U.S., but two are open in Japan and eight in Canada.

"We were looking for a unique marketing niche in a very competitive segment," says Steinman. The company has made its reputation on value; a 10-topping pizza weighs over 5 lb., and the ingredients are all fresh. Yet prices are often 20% less expensive than competitors' cooked pizza.

Papa Aldo's offers pizza that is made in the store and customized for each customer. Thin, thick, and deep-dish pizzas are available. Many units also offer fresh salads and frozen yogurt.

Steinman says that take-and-bake operations are less labor intensive than standard pizza units. Also, most stores are 1,000 sq. ft., and are usually located in strip centers. Startup costs are $80,000. Average unit volume is $250,000, says Steinman.

Papa Aldo's has arranged with several video store chains to put units as close as possible to new units, says Steinman. The company is also concentrating expansion in small towns. Is delivery in the future? Not likely, says Steinman. "We'll let Pizza Hut and Domino's fight it out."

Canoga Park, C..-based Ameci Pizza & Pasta undercuts its competition by preparing a large cheese pizza in 5½ minutes, priced at $3.99. Ameci bills itself as fast Italian food, and owner Nick Andreanos has an assembly line that makes doughballs into oven-ready pizzas in 28 seconds; a conveyor oven bakes the pizza in five minutes. An efficient assembly area includes a pizza line and a separate line with a stove, a steam table, and a deep fryer.

Andreanos claims that Ameci's has been able to compete against the big chains because it does a big volume business—25,000 pizzas a week—with its low-priced pizza. Thus, Ameci's is big enough to bargain with suppliers for good prices.

"I think we scare even Domino's with our $3.99 pizza," he says.

The 23 units also offer a full menu of lasagna and pastas, salads, and submarine sandwiches. All items are made fresh on the premises. A half-gallon bucket of spaghetti is priced at $5.99.

There is no inside seating. About 40% of sales come from delivery; 60% are carry-out. The three company-owned and 20 franchised units are all located in strip centers. Andreanos says that the company has found the most success in smaller communities such as Palmdale, Lake Forest, and Camarillo, CA. Com-

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Several chains are downsizing pizzas for a better price/value perception.

Olive's owner Craig Cooper calls his product "San Francisco-style pizza."

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pany sales reached $9 million in 1989.

Ameci's has boosted sales by tapping into the school lunch market. The company supplies 30 to 40 private schools in the San Fernando Valley.

Another small company that has clearly delineated itself is Albuquerque, NM-based Nunzio's. Three brothers—Frank, Nick, and Tony Casale—are owners of the five-unit Nunzio's Pizza chain. They have recently launched Nunzio's Express, which offers individual pizzas baked in just one minute and priced at $1.79.

The Express unit has two drive-thru lanes, and customers order at menu stations equipped with two-way video systems. The building is designed to sit on tiny parcels of land. It consists of a glass-walled kiosk on the ground floor, with cash registers and beverage stations. Spreading above the kiosks is a wing-like kitchen. Conveyors transport the 8-in. pizzas from the kitchen down to the ground level. Drive-thru lanes pass under the kitchen.

The Casales spent $1 million and five years to develop the concept. A special oven cooks pizzas in one minute, and can produce 350 8-in. pizzas an hour.

UPSCALE. In order to compete, some operators have opted to offer a more upscale product. An example is San Francisco-based Olive's Gourmet Pizza, which offers sit-down service plus delivery and take-out. Owner Craig Cooper calls his product "San Francisco-style gourmet pizza."

"I added cornmeal and Italian olive oil to pizza crust for more texture and flavor," he says. "I started out with the typical cheese, tomato sauce, and sausages. But since there are no rules for pizza, I added toppings like escargot, salmon, cilantro, pesto, sun-dried tomatoes, and roasted garlic."

Pizza Hut is the segment leader with 6,000 units.

Olive's Southwestern pizza might be topped with fresh sweet corn, jalapeño peppers, tomatillos, and cilantro salsa.

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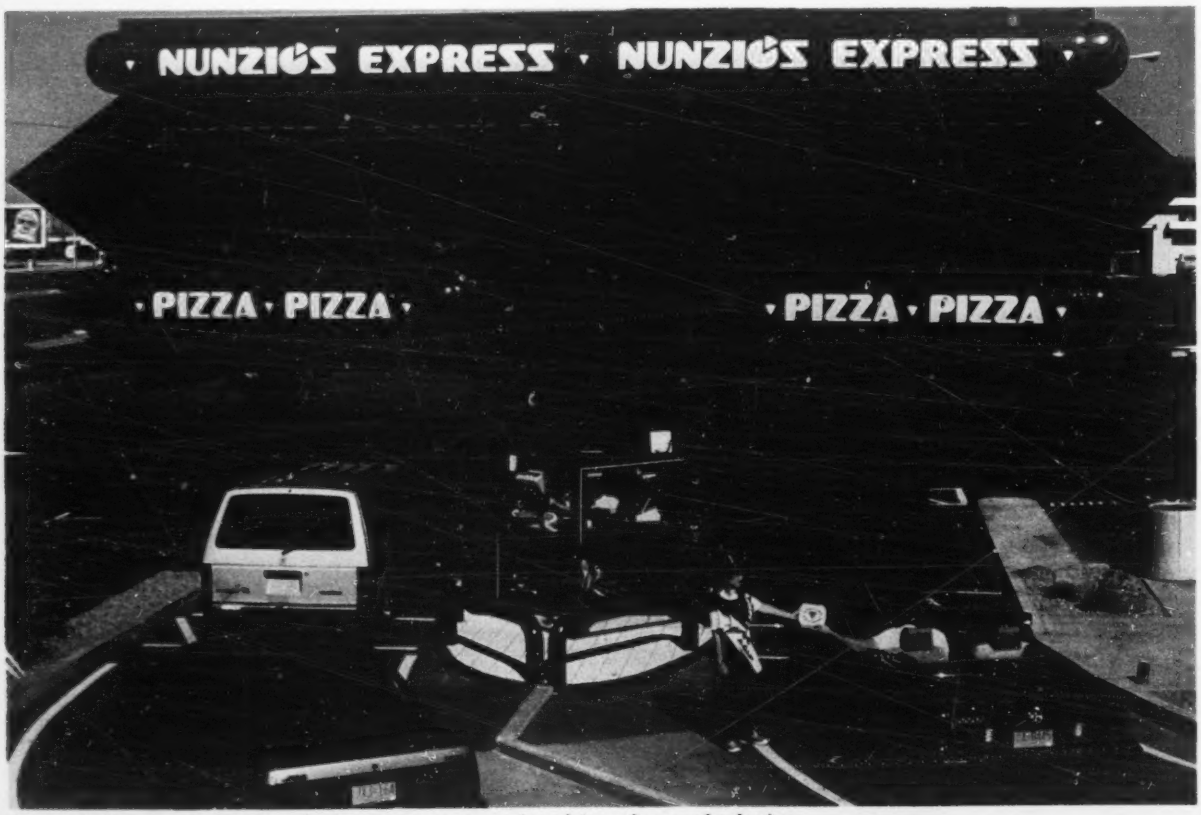

Nunzio's Express prototype features a space-saving drive-thru-only design.

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A French pizza might feature sautéed escargot with mushrooms and onions sautéed in red wine, with cheese and garlic. Cooper has also experimented with Asian, Mediterranean, and Greek pizzas.

Ninety different pizzas now rotate on a regular basis. Eight pizzas are featured daily, along with two pastas, a calzone, two mixed green salads, and a vegetable salad. Also on the menu are sandwiches, such as a mesquite-grilled eggplant sandwich with smoked mozzarella and roasted red peppers on an Italian roll. The restaurants also offer wine and beer.

Instead of fully baking pizzas for take-home or delivery, they are "half-baked," so customers can finish baking them at home. The first Olive's opened in 1985. A second unit opened in Austin, TX, recently. Cooper intends to franchise the concept.

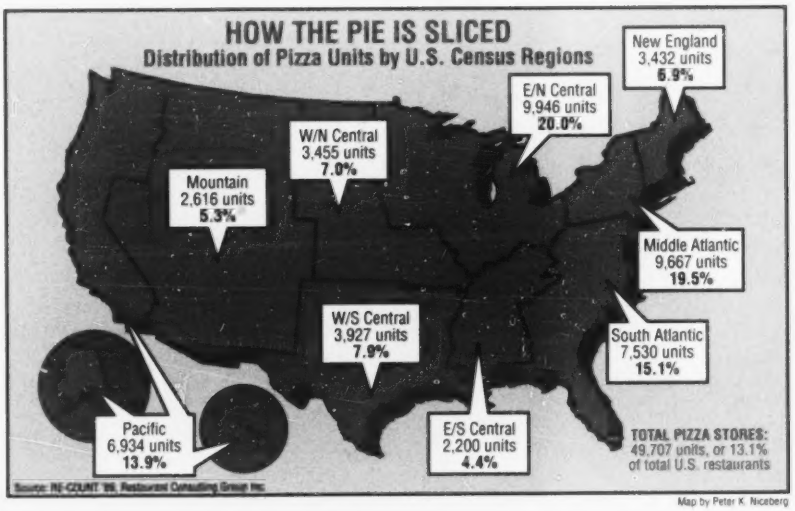
EMPHASIZING QUALITY. A company that has fought the giants by delineating an entirely different niche is Mazzio's Corp., formerly Ken's Restaurant Systems. The company operates 259 units in the Midwest; only 59 of them are still Ken's.

The original Ken's was an early Pizza Hut clone with a low-priced pizza and utilitarian decor. "There was no reason to come to Ken's, because Pizza Hut did it better," acknowledges Lippert.

The newer Mazzio's concept is altogether different, with upscale decor (brass, neon, awnings) and a high-quality, toppings-laden pizza. The newest offering is a 3-lb. pizza, and last summer a line of specialty pizzas was offered. Varieties include Cajun, Mexican, seafood, crab and shrimp, and ham and cheddar pizzas. One pizza even featured an oat-bran crust.

"We have to be clearly differentiated from Pizza Hut, Domino's, and Little Caesars. We can't win going head to head," says Lippert. "That's why we spend money on decor and product, to become a destination location."

As a result, sales are strong and growing. Delivery has been initiated, but mainly to generate incremental sales. "Our tactic is to maintain our dine-in business and increase sales by delivery," says Lippert. "We think there is a danger in being too skewed to delivery, because then we're too vulnerable to a Pizza Hut or Domino's."



Map by Peter K. Niceberg

There are 49,707 pizza units; most are in the East/North Central region.

THE BIG THREE

Company Name	No. of Units	Avg. Unit Volume	1989 Sales
Pizza Hut (PepsiCo) Wichita, KS	**6,500**	**$520,000**	**$3.0 billion**
Domino's Ann Arbor, MI	**5,222**	**$468,000**	**$2.5 billion**
Little Caesars Farmington, MI	**2,700**	**N/A**	**$1.13 billion**

SEEKING A STRATEGY. South San Francisco, CA-based Shakey's Pizza Restaurants is facing the challenge of competing in the tough pizza segment under new leadership. Bought last year by Singapore-based Inno-Pacific Holdings Ltd., both Shakey's Inc. and Shakey's International Ltd. are now under the same ownership. Former Skipper's president Gene Stone has been named president of Shakey's Inc., while Russell Fredrickson leads Shakey's International Ltd.

Observers say that Stone's challenge is to retool Shakey's concept. The chain is saddled with very large outlets, at a time when competitors are focusing on

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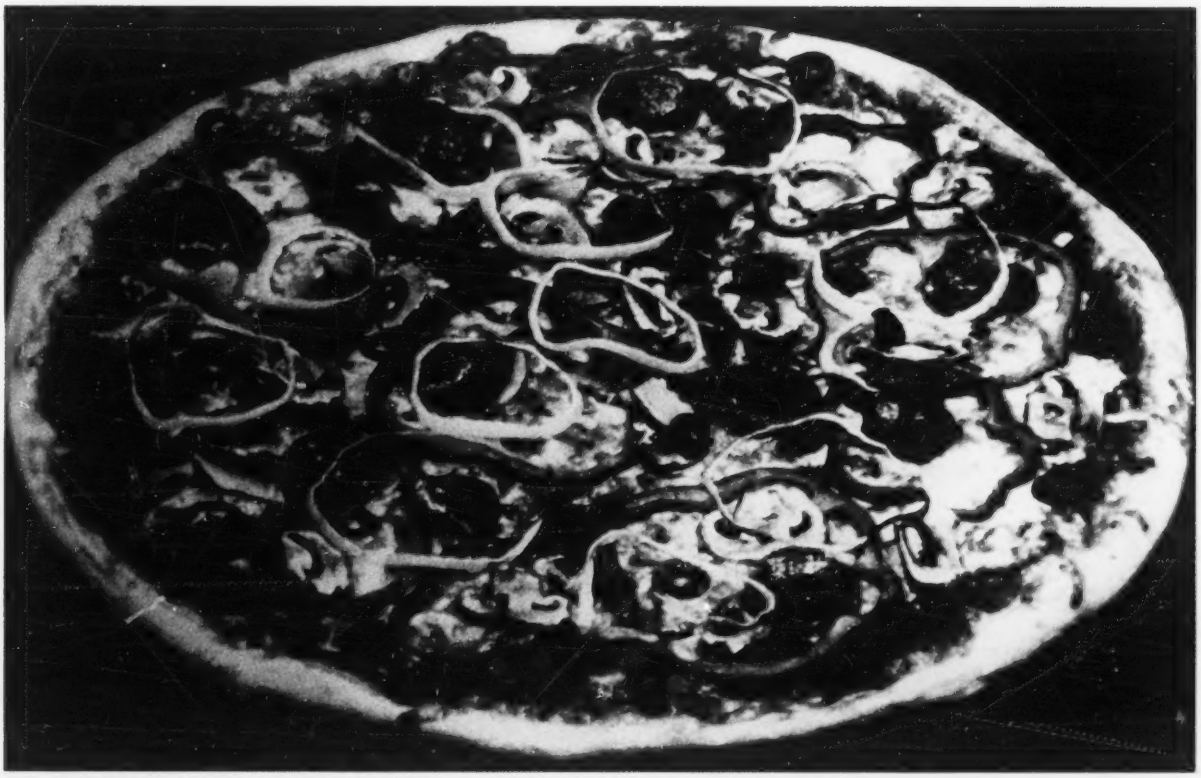

Ameci Pizza & Pasta serves a pizza in 5 ½ minutes, priced at $3.99.

smaller streamlined units. Shakey's also offers an all-you-can-eat luncheon buffet, which is counter to segment trends.

Shakey's also has too many units in too many markets. Because of the competitive nature of the business, the company would be better served if its 217 domestic units were clustered in certain markets for maximum penetration, rather than scattered helter-skelter.

Until recently, Shakey's boasted only one corporate-owned unit. That recently changed dramatically when the company bought Monarch Foods Inc., a Shakey's franchisee owned by Gordon Apker. The largest franchisee operation in Shakey's domestic system, Monarch Foods operates 20 restaurants in Washington—primarily Seattle—and Alaska.

Stone says that the goal of building the base of company stores is to be able to "lead by example through the building of new company restaurants or the acquisition and development of other sites, whether they are our own franchisees' or competitors'."

In addition to the domestic units, over 130 units operate internationally under Shakey's International Ltd. Shakey's corporate offices were recently relocated from Dallas to South San Francisco to better organize domestic and international divisions.

Today, pizza is such a mainstay of foodservice that even a few hotels have made pizza available to guests.

Participating Hyatt Hotels and Resorts promote the pizza, called "Front Row." Guests can order a pizza and to their room for a late-night snack or on-the-run meal.

Guests simply call the Front Row pizza number in their in-room telephone books, and a hot pizza arrives at the room in less than 30 minutes.

THE FUTURE. Although the pizza market is healthy, it is also competitive. Smaller regional chains and independents have to figure out a way to compete against the largest companies. The big companies enjoy economies of scale that smaller operators can't hope for, and their advertising budgets are phenomenal. But there is hope, if the smaller competitors can delineate their niches and serve a need that the Big Three pizza chains don't touch. The going may be rough for the next few years, however. **RB**